



0000093794

**ORIGINAL****MEMORANDUM**

TO: Docket Control

FROM: Ernest G. Johnson  
Director  
Utilities Division

*EA for EGJ*

DATE: February 17, 2009

RE: STAFF REPORT FOR ORANGE GROVE WATER COMPANY, INC.'S  
APPLICATION FOR A PERMANENT RATE INCREASE. (DOCKET NO. W-  
02237A-08-0455)

Attached is the Staff Report for Orange Grove Water Company, Inc.'s application for a permanent rate increase. Staff recommends approval of a rate increase in accordance with Staff's recommendations.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before February 27, 2009.

EGJ:MEM:red

Originator: Marvin E. Millsap

Arizona Corporation Commission  
**DOCKETED**

FEB 17 2009

DOCKETED BY	<i>MM</i>
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AZ CORP COMMISSION  
DOCKET CONTROL

2009 FEB 17 P 3:51

RECEIVED

Service List for: Orange Grove Water Company, Inc.  
Docket No. W-02237A-08-0455

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**ORANGE GROVE WATER COMPANY, INC.**

**DOCKET NO. W-02237A-08-0455**

**APPLICATION FOR A  
PERMANENT RATE INCREASE**

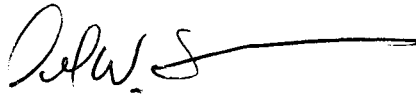
**FEBRUARY 17, 2009**

## STAFF ACKNOWLEDGMENT

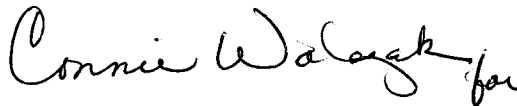
The Staff Report for Orange Grove Water Company, Inc., Docket No. W-02237A-08-0455, was the responsibility of the Staff members listed below. Marvin E. Millsap was responsible for the financial review and analysis of the Company's application. Del Smith was responsible for the engineering and technical analysis. Reg Lopez was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Marvin E. Millsap  
Public Utilities Analyst IV



Del Smith  
Utilities Engineer



Reg Lopez  
Public Utilities Consumer Analyst

**EXECUTIVE SUMMARY  
ORANGE GROVE WATER CO., INC.  
DOCKET NO. W-02237A-08-0455**

Orange Grove Water Company, Inc. ("Orange Grove" or "Company") is a Class D water utility located in Yuma County, approximately 10 miles southeast of Yuma. Orange Grove provides potable water to approximately 311 metered customers in its certificated area.

Orange Grove proposes total operating revenue of \$120,016, an increase of \$30,120 or 33.51 percent above the Company's adjusted test year revenue of \$89,896. The Company's proposed rates would increase the typical 5/8-inch meter residential bill, with a median usage of 7,516, from \$21.03 to \$28.13; an increase of \$7.10, or 33.8 percent. The Company proposes an inverted, three-tier rate design. The Company's proposed rates actually produce revenues of \$121,078 based on the bill analysis submitted.

Staff recommends total operating revenue of \$120,016, an increase of \$30,120 or 33.51 percent above the test year revenue of \$89,896. Staff's recommended rates would increase the typical 5/8-inch meter residential bill, with a median usage of 7,516 gallons, from \$21.03 to \$27.66; an increase of \$6.63, or 31.5 percent.

Staff recommends approval of the Staff recommended rates and charges as shown on Schedule MEM-4.

Staff also recommends that the Company install a minimum of 60,000 gallons of storage.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, no later than December 31, 2009, a Certificate of Approval to Construct for the 60,000 gallons of storage capacity and that the Company file no later than May 31, 2010, and a Certificate of Approval of Construction for the 60,000 gallons of storage capacity.

Staff further recommends that the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

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## **ATTACHMENTS**

Engineering Report .....	A
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## FACT SHEET

**Type of Ownership:** Arizona "C" Corporation

**Location:** In Yuma County about 7 miles south of Yuma, Arizona.

**Rates:** Permanent rate increase application filed August 29, 2008. The application became sufficient on December 4, 2008.

**Current Rates:** Decision No. 53723, dated September 7, 1983.

### Metered Rates:

<b>Based on 5/8-inch meter</b>	<b>Company Current <u>Rates</u></b>	<b>Company Proposed <u>Rates</u></b>	<b>Staff Recommended <u>Rates</u></b>
Monthly Minimum Charge	\$10.00	\$11.87	\$11.50
Gallons in minimum	2,000	0	0
Per 1,000 gallons	\$2.00		
Tier One from 1 gallon to 4,000 gallons		\$2.00	
Tier One from 1 gallon to 3,000 gallons			\$2.00
Tier Two from 4,001 gallons to 10,000 gallons		\$2.35	
Tier Two from 3,001 gallons to 8,000 gallons			\$2.25
Tier Three all gallons over 10,001		\$2.75	
Tier Three all gallons over 8,001			\$2.75
Typical residential bill (based on median usage of 7,516 gallons)	\$21.03	\$28.13	\$27.66

**Customers:** The Company served an average of 311 metered customers during the test year, broken-out by meter size as follows:

5/8 x 3/4 – inch meter 311

There are no other meter sizes in use.

### Complaints:

There have been no customer complaints/opinions since the rate application was filed. No inquiries were reported from 2006-2009.

Orange Grove Water Company, Inc.

Docket No. W-02237A-08-0455

Page 2

Percentage of complaints to customer base: N/A

**Notifications:**

Customer notification was mailed on August 25, 2008.



## **SUMMARY OF FILING**

On August 29, 2008, Orange Grove Water Company, Inc. ("Orange Grove" or "Company"), filed a request for a permanent rate increase with the Arizona Corporation Commission ("Commission"). On December 4, 2008, the application was deemed sufficient by Utilities Division Staff ("Staff").

Based on test year results as adjusted by Staff, the Company had an operating loss of \$10,246 and no operating margin, as shown on Schedule MEM-1.

The Company's proposed rates would produce operating revenues of \$121,078. However, Orange Grove requested a revenue increase to \$120,016, which will result in an operating income of \$18,375, producing a 15.31 percent operating margin. The Company proposes an original cost rate base ("OCRB") of \$14,648. The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter residential bill with a median usage of 7,516 gallons from \$21.03 to \$28.13, for an increase of \$7.10 or 33.8 percent.

Staff's recommended rates would produce operating revenues of \$120,016 and result in an operating income of \$15,537, producing a 12.95 percent operating margin. Staff's recommended OCRB is \$25,702. Staff's recommended rates would increase the typical 5/8-inch meter residential bill, with a median usage of 7,516 gallons, from \$21.03 to \$27.66; an increase of \$6.63, or 31.5 percent.

The Company utilized a test year ending December 31, 2007.

## **BACKGROUND**

Orange Grove is an Arizona class D utility engaged in the business of providing potable water service. Orange Grove was granted a Certificate of Convenience and Necessity ("CC&N") to provide water service per Decision No. 39886, effective January 29, 1969.

## **CONSUMER SERVICES**

A review of the Consumer Services Section database for the Company from January 1, 2006, through January 30, 2009, revealed that there were no complaints, inquiries or opinions.

## **COMPLIANCE**

The Utilities Division Compliance Section's records reflected no outstanding compliance issues.

The Company is not within an Active Management Area and, thus, is not subject to the Arizona Department of Water Resources monitoring and reporting requirements for groundwater withdrawals.

Arizona Department of Environmental Quality reported that the Company's Public Water System #14003, had no deficiencies and is currently delivering water that meets the quality standards required by the Arizona Administrative Code, Title 18 Chapter 4.

The Corporations Division of the Commission indicates the Company is in good standing.

The Company has a certificate of good standing from the Arizona Department of Revenue, dated August 13, 2008.

Staff has confirmed through the Yuma County Treasurer's Office that as of December 31, 2007, the Company is current on its property taxes.

## **ENGINEERING ANALYSIS**

The water system was visited on June 25, 2008, by Mr. Del Smith, Staff Utilities Engineer, in the accompaniment of Kathleen Day, the Company's President, Stanley Hill, the Company's local operations and maintenance representative and Ralph Smith, the Company's certified operator. A complete discussion of Staff's technical findings and recommendations along with a complete description of the Company's water system is provided in the attached Engineering Report.

## **RATE BASE**

As shown on Schedule MEM-2, page 1 of 3, Staff recommends a rate base of \$25,702. This represents an increase of \$11,054 over the Company's proposed rate base of \$14,648, due to Staff's adjustments.

### *Plant-in-Service*

Staff determined that an adjustment was required to one component of plant-in-service to account for a rounding difference. A decrease in accumulated depreciation was required to correct the amount of depreciation expense recorded each year by the Company related to a difference in classifying plant additions. See Schedule MEM-2, page 2 of 3 and MEM-2, page 3 of 3.

### *Working Capital*

Adjustment C increases the cash working capital component by \$10,630 using the formula method because the Company did not include a cash working capital component in its rate base calculations. The formula method calculates cash working capital by multiplying operations and maintenance expenses by one-eighth and combines this with one-twenty-fourth of the pumping power expense. See Schedule MEM-2, page 1 of 3.

## **OPERATING REVENUES**

The Company's test year operating revenues were \$89,896. Staff concurs with the Company's revenue and used the same billing determinants for Staff's revenue determination and rate design process.

## **OPERATING EXPENSES**

Staff's adjustments to operating expenses resulted in a decrease of \$1,499 from \$101,641 to \$100,142, as shown on Schedule MEM-3, page 1 of 2. The adjustments are explained below.

Water Testing – Adjustment A decreased water testing expense by \$324 from \$3,672 to \$3,348, to reflect Staff Engineer's recommendation.

Depreciation Expense – Adjustment B decreased depreciation expense by \$4,330 from \$6,057 to \$1,727, to reflect test year depreciation expense, as calculated on Schedule MEM-3, page 2 of 2.

Income Taxes – Adjustment C increased income taxes by \$3,155 from negative \$3,105 to \$50, to reflect Arizona's minimum corporate income tax of \$50.

## **REVENUE REQUIREMENT**

Staff utilizes a rate of return on rate base to determine the appropriate revenue requirement. However, because the Company's rate base is too low to provide an appropriate level of revenue, Staff is utilizing an operating margin to develop its revenue requirement.

The Company's proposed operating revenue of \$120,016 would provide an operating income of \$18,375 and a resulting 15.31 percent operating margin.

Staff's recommended operating revenue of \$120,157 would provide an operating income of \$15,395 and a resulting 12.95 percent operating margin.

## **RATE DESIGN**

The Company's proposed rates would increase the typical 5/8-inch meter residential bill with a median usage of 7,516 gallons from \$21.03 to \$28.13, for an increase of \$7.10 or 33.8 percent.

Staff's recommended rates would increase the typical 5/8-inch meter residential bill with a median usage of 7,516 gallons from \$21.03 to \$27.66, for an increase of \$6.63 or 31.5 percent.

Staff recommends service line and meter installation charges, and other service charges as indicated on Schedule MEM-4.

## **STAFF RECOMMENDATIONS**

Staff recommends approval of its rates and charges as shown in Schedule MEM-4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales, or use tax as provided for in A.A.C. R14-2-409.D.

Staff further recommends the Company file with Docket Control, as a compliance item in this Docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

Staff further recommends that the Company use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category on a going forward basis.

Staff further recommends that the Company install a minimum of 60,000 gallons of storage.

Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, no later than December 31, 2009, a Certificate of Approval to Construct for the 60,000 gallons of storage capacity and that the Company file no later than May 31, 2010, a Certificate of Approval of Construction for the 60,000 gallons of storage capacity.

**Orange Grove Water Company**

Docket No. W-02237A-08-0455

Test Year Ended December 31, 2007

Schedule MEM-1

**SUMMARY OF FILING**

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Water Sales	\$89,896	\$89,896	\$120,016	\$120,016
Other Operating Revenue	0	0	0	0
Total Operating Revenue	\$89,896	\$89,896	\$120,016	\$120,016
Operating Expenses:				
Operation and Maintenance	\$90,158	\$89,834	\$90,158	\$89,834
Depreciation	6,057	1,727	6,057	1,727
Taxes Other than Income	8,531	8,531	8,531	8,531
Income Tax	(3,105)	50	(3,105)	4,387
Total Operating Expense	\$101,641	\$100,142	\$101,641	\$104,479
Operating Income/(Loss)	(\$11,745)	(\$10,246)	\$18,375	\$15,537
Rate Base O.C.L.D.	\$14,648	\$25,702	\$14,648	\$25,702
Rate of Return - O.C.L.D.	N/A	N/A	125.44%	60.45%
OPERATING MARGIN	N/A	N/A	15.31%	12.95%

NOTE: 1. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

## RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$217,894	\$2	A	\$217,896
Less:				
Accum. Depreciation	178,731	(422)	B	178,309
<b>Net Plant</b>	<b>\$39,163</b>	<b>\$424</b>		<b>\$39,587</b>
Less:				
Plant Advances	\$0	\$0		\$0
Customer Meter Deposits	0	0		0
<b>Total Advances</b>	<b>\$0</b>	<b>\$0</b>		<b>\$0</b>
Contributions Gross	\$43,950	\$0		\$43,950
Less:				
Amortization of CIAC	19,435	0		19,435
<b>Net CIAC</b>	<b>\$24,515</b>	<b>\$0</b>		<b>\$24,515</b>
<b>Total Deductions</b>	<b>\$24,515</b>	<b>\$0</b>		<b>\$24,515</b>
Plus:				
1/24 Power	\$0	\$299	C	\$299
1/8 Operation & Maint.	0	10,331	C	10,331
Inventory	0	0		0
Prepayments	0	0		0
<b>Total Additions</b>	<b>\$0</b>	<b>\$10,630</b>		<b>\$10,630</b>
<b>Rate Base</b>	<b>\$14,648</b>	<b>\$11,054</b>		<b>\$25,702</b>

*Explanation of Adjustment:*

- A - Rounding difference.
- B - Difference in plant classification.
- C - To consider the investment of cash working capital needed to operate the utility based on the formula method.

## PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Intangibles	\$0	\$0	\$0
303 Land & Land Rights	900	0	900
304 Structures & Improvements	0	0	0
307 Wells & Springs	11,699	0	11,699
311 Pumping Equipment	11,711	0	11,711
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs	17,509	0	17,509
331 Trans & Dist Mains	128,931	0	128,931
333 Services	7,958	0	7,958
334 Meters	15,757	2 A	15,759
335 Hydrants	9,966	0	9,966
340 Office Furniture & Fixtures	4,305	0	4,305
341 Transportation Equipment	9,158	0	9,158
343 Tools & Work Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communications Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
<b>TOTALS</b>	<b>\$217,894</b>	<b>\$2</b>	<b>\$217,896</b>

*Explanation of Adjustment:*

A - Rounding difference correction.

## ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$178,731
Accumulated Depreciation - Per Staff	178,309 B
<b>Total Adjustment</b>	<b><u>(\$422)</u></b>

*Explanation of Adjustment:*

B - Difference in plant classification.



## STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
Water Sales	\$89,896	\$0	\$89,896
Other Operating Revenue	0	0	0
Total Operating Revenue	\$89,896	\$0	\$89,896
Operating Expenses:			
Purchased Pumping Power	\$7,187	\$0	\$7,187
Purchased Water	0	0	0
Salaries and Wages	42,424	0	42,424
Repair and Maintenance	8,518	0	8,518
Water Testing	3,672	(324) A	3,348
Chemicals	0	0	0
Transportation Expense	295	0	295
Office Supplies & Expense	7,843	0	7,843
Insurance	13,166	0	13,166
Outside Services	4,625	0	4,625
Rents	0	0	0
Depreciation	6,057	(4,330) B	1,727
Property Tax	5,109	0	5,109
Taxes Other Than Income	3,422	0	3,422
Income Taxes	(3,105)	3,155 C	50
Miscellaneous Expense	2,428	0	2,428
Total Operating Expenses	\$101,641	(\$1,499)	\$100,142
OPERATING INCOME/(LOSS)	(\$11,745)	\$1,499	(\$10,246)
Other Income/(Expense):			
Interest Income	\$0	\$0	\$0
Other Income	0	0	0
Interest Expense	0	0	0
Other Expense	0	0	0
Total Other Income/(Expense)	\$0	\$0	\$0
NET INCOME/(LOSS)	(\$11,745)	\$1,499	(\$10,246)

## STAFF ADJUSTMENTS

A -	WATER TESTING - Per Company	\$3,672	
	Per Staff	3,348	(\$324)

Adjusted to reflect Engineering recommendation.

B -	DEPRECIATION - Per Company	\$6,057	
	Per Staff	1,727	(\$4,330)

Staff used 5 percent rate as this was approved in the last rate case. Company used rates that are currently recommended for the NARUC account classifications.

### Pro Forma Annual Depreciation Expense:

Plant in Service	\$217,896
Less: Non Depreciable Plant	900
Fully Depreciated Plant	138,511
Depreciable Plant	\$78,485
Times: Staff Proposed Depreciation Rate	5.00%
Credit to Accumulated Depreciation	\$3,924
Less: Amortization of CIAC @ 5.00%	2,198 *
<b>Pro Forma Annual Depreciation Expense</b>	<b>\$1,727</b>

### \* Amortization of CIAC:

Contribution(s) in Aid of Construction (Gross)	\$43,950
Less: Non Amortizable Contribution(s)	0
Fully Amortized Contribution(s)	19,435
Amortizable Contribution(s)	\$24,515
Times: Staff Proposed Amortization Rate	5.00%
<b>Amortization of CIAC</b>	<b>\$2,198</b>

C -	INCOME TAXES - Per Company	(\$3,105)	
	Per Staff	50	\$3,155

Adjusted to reflect the minimum Arizona Corporate income tax.

**RATE DESIGN**

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$10.00	\$11.87	\$11.50
3/4" Meter	0.00	0.00	17.25
1" Meter	0.00	0.00	28.75
1½" Meter	0.00	0.00	57.50
2" Meter	0.00	0.00	92.00
3" Meter	0.00	0.00	184.00
4" Meter	0.00	0.00	287.50
6" Meter	0.00	0.00	575.00
Excess of Minimum - per 1,000 Gallons	\$0.00	\$2.00	\$2.00
Gallons Included in Minimum	2,000	4,000	3,000
Excess of Minimum - per 1,000 Gallons	\$2.00	\$2.35	\$2.25
Gallons Included in Minimum	999,999	10,000	8,000
Excess of Minimum - per 1,000 Gallons	\$0.00	\$2.75	\$2.75
Gallons Included in Minimum	0	999,999	999,999
<b>Service Line and Meter Installation Charges</b>			
			Staff Total
5/8" x 3/4" Meter	\$100.00	\$520.00	\$520.00
3/4" Meter	120.00	None Proposed	620.00
1" Meter	160.00	None Proposed	730.00
1½" Meter	300.00	None Proposed	995.00
2" Meter - Turbine	400.00	None Proposed	1,795.00
2" Meter - Compound	No Tariff	None Proposed	2,640.00
3" Meter - Turbine	No Tariff	None Proposed	2,635.00
3" Meter - Compound	No Tariff	None Proposed	3,630.00
4" Meter - Turbine	No Tariff	None Proposed	4,000.00
4" Meter - Compound	No Tariff	None Proposed	5,155.00
6" Meter - Turbine	No Tariff	None Proposed	7,075.00
6" Meter - Compound	No Tariff	None Proposed	9,090.00
<b>Service Charges</b>			
Establishment	N/A	\$25.00	\$25.00
Establishment (After Hours)	N/A	40.00	40.00
Reconnection (Delinquent)	N/A	40.00	40.00
Meter Test (If Correct)	N/A	25.00	25.00
Deposit	N/A	*	*
Deposit Interest	N/A	*	*
Re-Establishment (Within 12 Months)	N/A	**	**
Re-Establishment (Within 12 Months, after hours)	N/A	**	**
NSF Check	N/A	25.00	25.00
Deferred Payment	N/A	1.50%	1.50%
Meter Re-Read (If Correct)	N/A	30.00	30.00
Moving Customer Meter (Customer Request)	N/A	***	***
After hours Service Charge (Rule R-14-2-403D)	N/A	Cost	Cost

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the minimum (R14-2-403.D)

\*\*\* Per Commission Rules (R14-2-405)

## TYPICAL BILL ANALYSIS

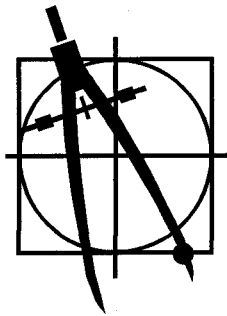
### General Service - 5/8 Inch Meter

Average Number of Customers: 313

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	8,846	\$23.69	\$31.26	\$7.57	32.0%
Median Usage	7,516	\$21.03	\$28.13	\$7.10	33.8%
<u>Staff Proposed</u>					
Average Usage	8,846	\$23.69	\$31.08	\$7.39	31.2%
Median Usage	7,516	\$21.03	\$27.66	\$6.63	31.5%

### Present & Proposed Rates (Without Taxes) General Service - 5/8 Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$10.00	\$11.87	18.7%	\$11.50	15.0%
1,000	10.00	13.87	38.7%	13.50	35.0%
2,000	10.00	15.87	58.7%	15.50	55.0%
3,000	12.00	17.87	48.9%	17.50	45.8%
4,000	14.00	19.87	41.9%	19.75	41.1%
5,000	16.00	22.22	38.9%	22.00	37.5%
6,000	18.00	24.57	36.5%	24.25	34.7%
7,000	20.00	26.92	34.6%	26.50	32.5%
8,000	22.00	29.27	33.0%	28.75	30.7%
9,000	24.00	31.62	31.8%	31.50	31.3%
10,000	26.00	33.97	30.7%	34.25	31.7%
15,000	36.00	47.72	32.6%	48.00	33.3%
20,000	46.00	61.47	33.6%	61.75	34.2%
25,000	56.00	75.22	34.3%	75.50	34.8%
50,000	106.00	143.97	35.8%	144.25	36.1%
75,000	156.00	212.72	36.4%	213.00	36.5%
100,000	206.00	281.47	36.6%	281.75	36.8%
125,000	256.00	350.22	36.8%	350.50	36.9%
150,000	306.00	418.97	36.9%	419.25	37.0%
175,000	356.00	487.72	37.0%	488.00	37.1%
200,000	406.00	556.47	37.1%	556.75	37.1%



**ENGINEERING REPORT FOR  
ORANGE GROVE WATER  
COMPANY**

**Docket Nos. W-02237A-08-0455  
(Rates)**

**By Del Smith**

**January 30, 2009**

**CONCLUSIONS**

1. Arizona Department of Environmental Quality ("ADEQ") regulates the Orange Grove Water Company ("Orange Grove" or "Company") water system under ADEQ Public Water System I.D. #14-366. Based on a Compliance Status Report, dated November 6, 2008, the system has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.
2. Orange Grove's service area is not located within any Active Management Area ("AMA"). Arizona Department of Water Resources ("ADWR") has determined that Orange Grove is currently in compliance with departmental requirements governing water providers and/or community water systems.
3. A check of the Commission's Compliance Section database showed that Orange Grove had no delinquent Commission compliance issues.

**RECOMMENDATIONS**

1. According to information provided by Orange Grove the amount of water pumped was not available because the well meter installed on Well #2 was not operable during the test year therefore non-account water for the Company's water system could not be determined. Staff recommends that the Company install a new well meter on Well #2 within 30 days of the effective date of the Arizona Corporation Commission ("ACC" or "Commission) order in this matter.
2. The Company has been reporting data for water pumped in its Annual Reports that is not based on actual data read at the well meter but instead is the same quantity as reported for gallons sold. Therefore, Staff cannot determine the actual level of non-account water from the Company's Annual Reports. Staff recommends that the Company be required to report the actual water pumped data

as read at the well meter on a monthly basis in future Annual Reports, beginning with the 2009 Annual Report filed in 2010.

3. Staff recommends that the Company monitor the Orange Grove water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce the water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.
4. The system currently does not have any storage capacity. There are fire hydrants in the distribution system. The system had 312 connections during the peak month of use in July 2007. Staff concludes that the system's well production has adequate capacity to serve the present customer base and growth. However, since the system currently is not equipped with a storage tank, Staff recommends that the Company install a minimum of 60,000 gallons of storage. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, no later than December 31, 2009, a Certificate of Approval to Construct ("ATC") for the 60,000 gallons of storage capacity and that the Company file no later than May 31, 2010, a Certificate of Approval of Construction ("AOC") for the 60,000 gallons of storage capacity.
5. Staff recommends an annual water testing expense of \$2,183 and certified operator expense of \$1,165 be used for purposes of this application.
6. For purposes of this rate application the Company used depreciation rates per National Association of Regulatory Utility Commissioners ("NARUC") plant category that were the same as the rates typically recommended by Staff. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual NARUC.
7. Staff recommends that the Service Line and Meter Installation charges listed under "Staff's Recommendation" in Table C be adopted.
8. On September 30, 2008, the Company filed a Curtailment Tariff based on the tariff template posted on the Commission's website. Staff recommends that this tariff be approved. Staff further recommends that the Company file the tariff with

Docket Control, as a compliance item in this docket, within 45 days after the effective date of the decision in this case.

9. On September 30, 2008, the Company filed a Cross-Connection Tariff (or Backflow Prevention Tariff) based on the tariff template posted on the Commission's website. Staff recommends that this tariff be approved. Staff further recommends that the Company file the tariff with Docket Control, as a compliance item in this docket, within 45 days after the effective date of the decision in this case.
10. According to the Company, Well No. 2 has never been registered with ADWR. Staff recommends that the Company file the appropriate registration documents with ADWR. Staff further recommends that the Company file documentation with Docket Control, as a compliance item in this docket, demonstrating that Well No. 2 has been registered and an ADWR Well Registration Number assigned. This documentation shall be filed within 45 days after the effective date of the decision in this case.
11. During its site inspection Staff noted that a sign listing the Company's identification and contact information was not visible at the Well Site on Valencia. Staff recommends that a sign be posted at the Well Site that meets ADEQ requirements. Staff further recommends that the Company file documentation with Docket Control demonstrating compliance within 45 days after the effective date of the decision in this case.

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## A. INTRODUCTION AND LOCATION OF COMPANY

On August 29, 2008, Orange Grove Water Company ("Orange Grove" or "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") to increase its rates. Per the application the Company has experienced limited growth and revenues have not kept pace with increases in operating expenses. The Company's current rates were approved in Commission Decision No. 53723, dated September 7, 1983. The ACC Utilities Division Staff ("Utilities Staff") engineering review and analysis of the application are presented in this report.

Orange Grove serves the Orange Grove Mobile Manor and the Rancho Mesa Verde Mobile Manor subdivisions near the Community of Somerton in Yuma County, Arizona. Figure 1 shows the location of the Company within Yuma County and Figure 2 shows the Certificate of Convenience and Necessity ("CC&N") covering approximately 90 acres (less than two-tenths of a square mile).

## B. DESCRIPTION OF THE WATER SYSTEM

The Orange Grove water system was visited on December 17, 2008, by Del Smith and Marvin Millsap, with Utilities Staff, in the accompaniment of Kathleen Day, the Company's President, Stanley Hill, the Company's local operations and maintenance representative and Ralph Smith<sup>1</sup>, the Company's certified operator.

The water system consists of two wells (with total yield of 330 Gallons Per Minute ("GPM")), a pressure tank (5,000 gallon capacity), and a distribution system serving 312 metered connections as of year end 2007. A water system schematic is shown as Figure 3 and Table A includes a detailed plant facility listing.

Table A. Plant Facilities Summary<sup>2</sup>

Well Data		
	Well No 1	Well No. 2
ADWR ID No.	55-84965	(Note 1)
Casing Size	8 inches	6 inches
Casing Depth	270 feet	260 feet
Pump Size in Horsepower (Hp)	20 Hp	7.5 Hp
Pump Yield in Gallons Per Minute (GPM)	275 GPM	55 GPM

<sup>1</sup> Ralph Smith is employed by Western Water Works located in Hereford, Arizona.

<sup>2</sup> The information listed was based on the Company's application, Arizona Department of Water Resources Records and Staff's site visit.

Meter Size	4 inch	3 inch
Year Drilled	1980	1977

## Notes:

- 1) According to the Company this well has never been registered with Arizona Department of Water Resources.
- 2) Both wells are located at the same site on Valencia Avenue in Orange Grove Mobile Manor.

**Storage & Structures**

Structure or Equipment	Location	Quantity and Capacity
Pressure Tank	Well Site (Note 1)	1 – 5,000 gallon
Storage Tank (Notes 2)	Well Site	1- 2,200 gallon (In Active)
8.5' x 9' Storage Shed	Well Site	1
50' x 50' (5' high) Chain Link Fence (Note 3)	Well Site	1

## Notes:

- 1) Located on Valencia Avenue in Orange Grove Mobile Manor.
- 2) Tank disconnected from System in 1988 and abandoned in-place.
- 3) Fence surrounding the Well Site on Valencia Avenue.

**Distribution Mains**

Diameter	Material	Length
8 inches	PVC	570 feet
6 inches	PVC	10,984 feet
4 inches	PVC	4,754 feet
2 ½ inches	PVC	3,664 feet

**Meters**

Size	Quantity
5/8 x 3/4 inch	312

**Fire Hydrants**

Size/Description	Quantity
Standard	10

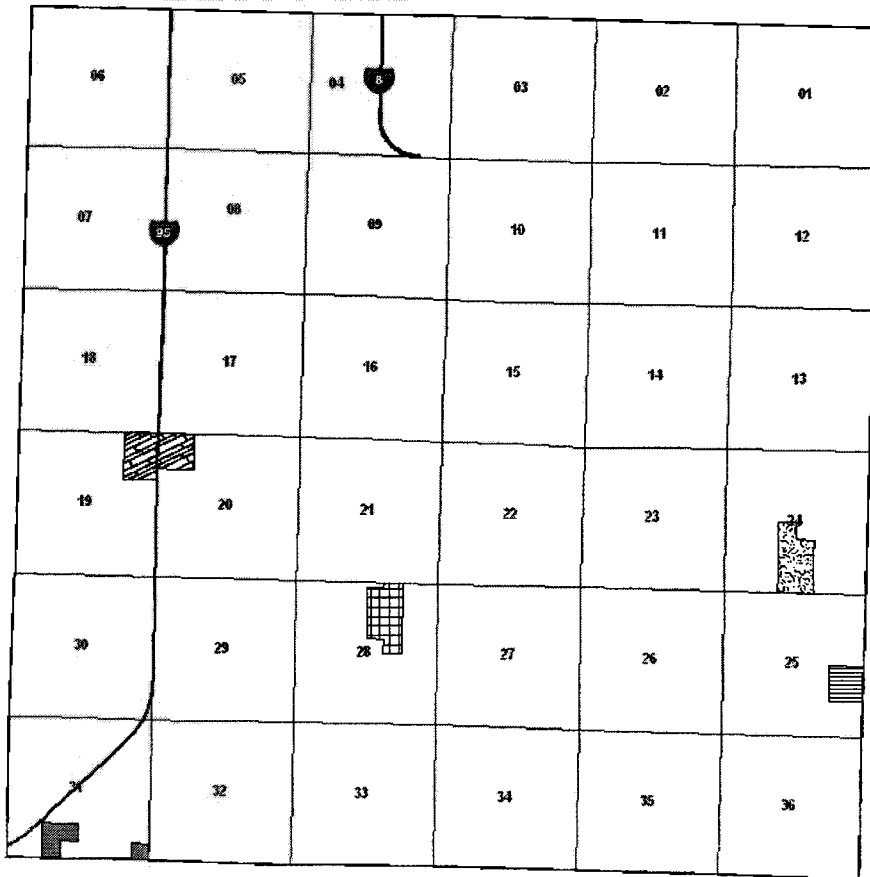
- |       |   |       |   |
|-------|---|-------|---|
| 02005 | ANTELOPE WATER COMPANY                    | 02271 | GREEN ACRES WATER COMPANY                   |
| 03868 | CITRUS PARK WATER COMPANY                 | 02341 | MOHAWK UTILITY COMPANY                      |
| 02027 | DATLAND PUBLIC SERVICE COMPANY, INC.      | 02237 | ORANGE GROVE WATER COMPANY                  |
| 20378 | DATLAND UTILITIES                         | 03254 | RANCHEROS BONITAS WATER COMPANY, LLC        |
| 02059 | DESERT VALENCIA WATER SYSTEM              | 01537 | SHEPARD WATER COMPANY, INC.                 |
| 02564 | EL PRADO WATER COMPANY, INC.              | 02386 | SUN LEISURE ESTATES UTILITIES COMPANY, INC. |
| 03478 | FAR WEST WATER & SEWER, INC.              | 01344 | TACNA WATER MANAGEMENT                      |
| 04047 | FISHER'S LANDING WATER & SEWER WORKS, LLC | 02498 | TIERRA MESA ESTATES WATER COMPANY, INC.     |
| 02205 | GADSDEN WATER COMPANY, INC.               |       |   |






Figure 1. County Map

Map No. 9

# YUMA COUNTY

## RANGE 23 West



-  W-2271 (1)  
Green Acres Water Company
-  W-2237 (2)  
Orange Grove Water Company
-  W-3254 (2)  
Rancheros Bonitos Water Company, LLC
-  W-2386 (1)  
Sun Leisure Estates Utilities Company, Inc.
-  W-2498 (1)  
Tierra Mesa Estates Water Company, Inc.

Pursuant to ARS § 39-421.03 this map is 'Not for Commercial Use'

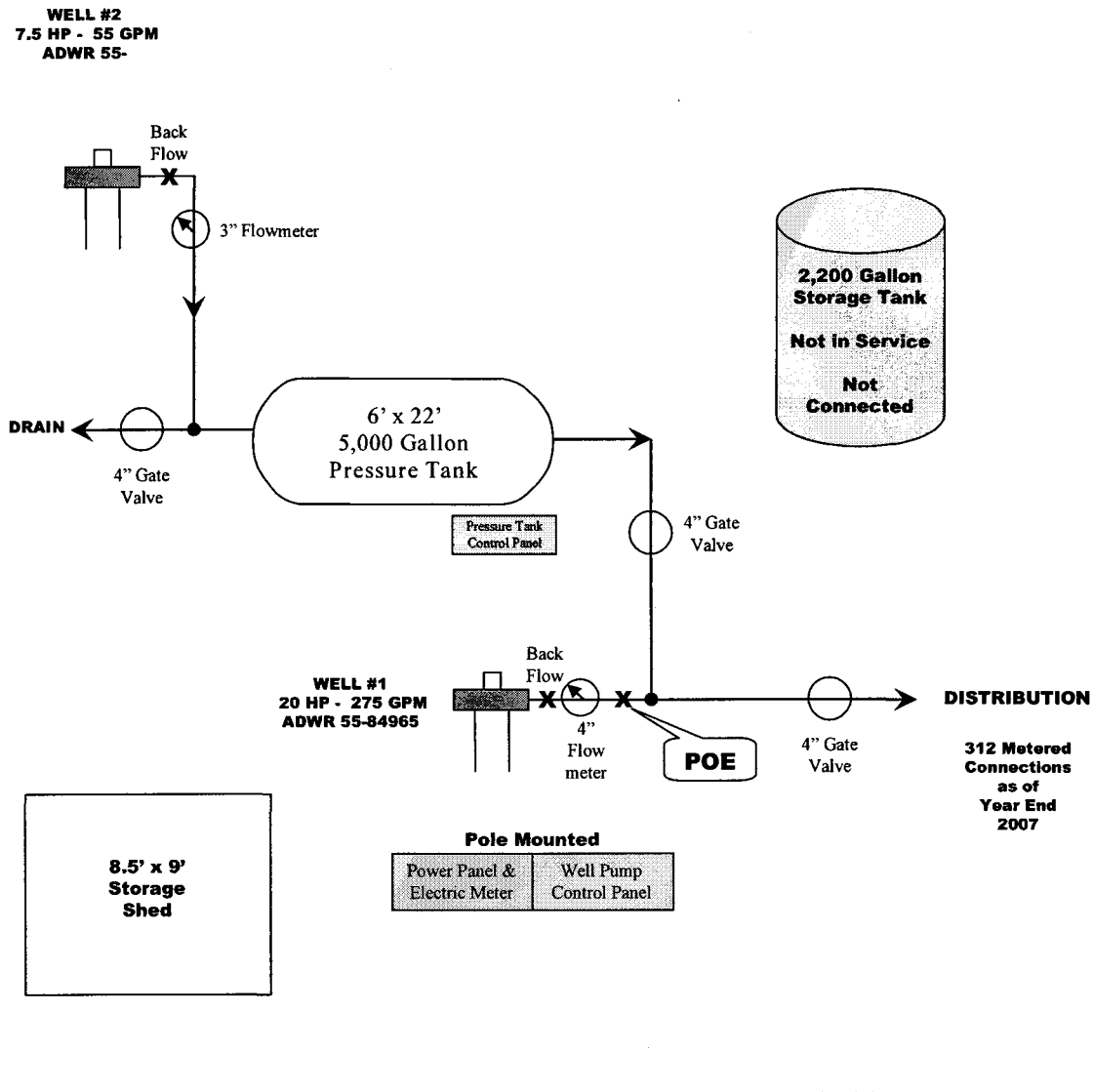
TR9823W 20 FEB 1997

Figure 2. Certificated Area

Orange Grove Water Company  
Docket No. W-02237A-08-0455  
PWS ID# 14-366

**Well Site (Located on Valencia Avenue in Orange Grove Mobile Manor)**

50' x 50' - 5' High Chain Link Fence Secure Site



**NOTES:**

- 1) Well #2 Cycles on to Meet Primary Demand
- 2) Well #1 Cycles on to Accommodate Higher Demand
- 3) 2,200 Gallon Storage Tank not Connected since 1988; Tank in need of Extensive Repairs; Abandoned In-Place
- 4) Well #2 Flowmeter not Operational at Time of Inspection

Figure 3. Water System Schematic

### C. WATER USE

#### Water Sold

Figure 4 presents the water consumption data provided by the Company for the test year ending December 31, 2007. Customer consumption included a high monthly water use of 345 gallons per day ("GPD") per connection in July, and the low water use was 223 GPD per connection in December. The average annual use was 291 GPD per connection. The Company reported 33,175,000<sup>3</sup> gallons of water sold during the test year.

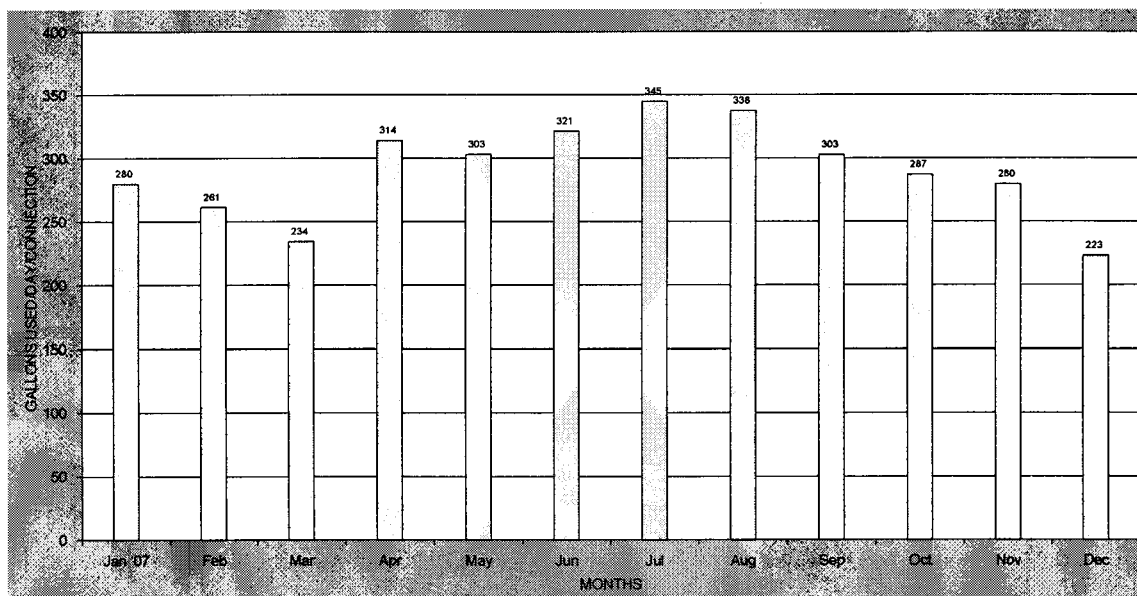


Figure 4. Water Use

#### Non-Account Water

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. According to information provided by Orange Grove the amount of water pumped was not available because the well meter installed on Well #2 was not operable during the test year, therefore, non-account water for the Company's water system could not be determined.<sup>4</sup> Staff recommends that the Company install a new well meter on Well #2 within 30 days of the effective date of the Commission's order in this matter.

<sup>3</sup> Total water sold during the test year based on the monthly data.

<sup>4</sup> See Water Use Data Sheet in the Application at Page 18.

The Company has been reporting data for water pumped in its Annual Reports that is not based on actual data read at the well meter but instead is the same quantity as reported for gallons sold. Therefore, Staff cannot determine the actual level of non-account water from the Company's Annual Reports. Staff recommends that the Company be required to report the actual water pumped data as read at the well meter on a monthly basis in future Annual Reports, beginning with the 2009 Annual Report filed in 2010.

Staff recommends that the Company monitor the Orange Grove water system and submit the gallons pumped and sold to determine the non-account water for one full year. The Company should coordinate when it reads the well meters each month with customer billing so that an accurate accounting is determined. The results of this monitoring and reporting shall be docketed as a compliance item in this case within 13 months of the effective date of the order issued in this proceeding. If the reported water loss is greater than 10%, the Company shall prepare a report containing a detailed analysis and plan to reduce water loss to 10% or less. If the Company believes it is not cost effective to reduce the water loss to less than 10%, it should submit a detailed cost benefit analysis to support its opinion. In no case shall the Company allow water loss to be greater than 15%. The water loss reduction report or the detailed analysis, whichever is submitted, shall be docketed as a compliance item within 13 months of the effective date of the order issued in this proceeding.

#### System Analysis

Based on the data provided by the Company, the system's well production capacity is 330 GPM. The system currently does not have any storage capacity. There are fire hydrants in the distribution system. The system had 312 connections during the peak month of use in July 2007. Staff concludes that the system's well production has adequate capacity to serve the present customer base and growth. However, since the system currently is not equipped with a storage tank, Staff recommends that the Company install a minimum of 60,000 gallons of storage.<sup>5</sup> Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, no later than December 31, 2009, a Certificate of Approval to Construct ("ATC") for the 60,000 gallons of storage capacity and that the Company file no later than May 31, 2010, a Certificate of Approval of Construction ("AOC") for the 60,000 gallons of storage capacity.

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<sup>5</sup> Since the Company does not have a specific fire flow requirement Staff assumed a minimum flow requirement of 500 GPM for one hour.

## D. GROWTH

The Company reached its current level of customers in the mid-1990s. Little if any growth has been experienced since then. Figure 5 details the customer growth using linear regression analysis. Staff estimated annual mean service connections based on data it obtained from annual reports submitted to the Commission. During the test year the mean number of customers served was 310 it is projected that the Company will have roughly the same number of customers (308) in 2012.

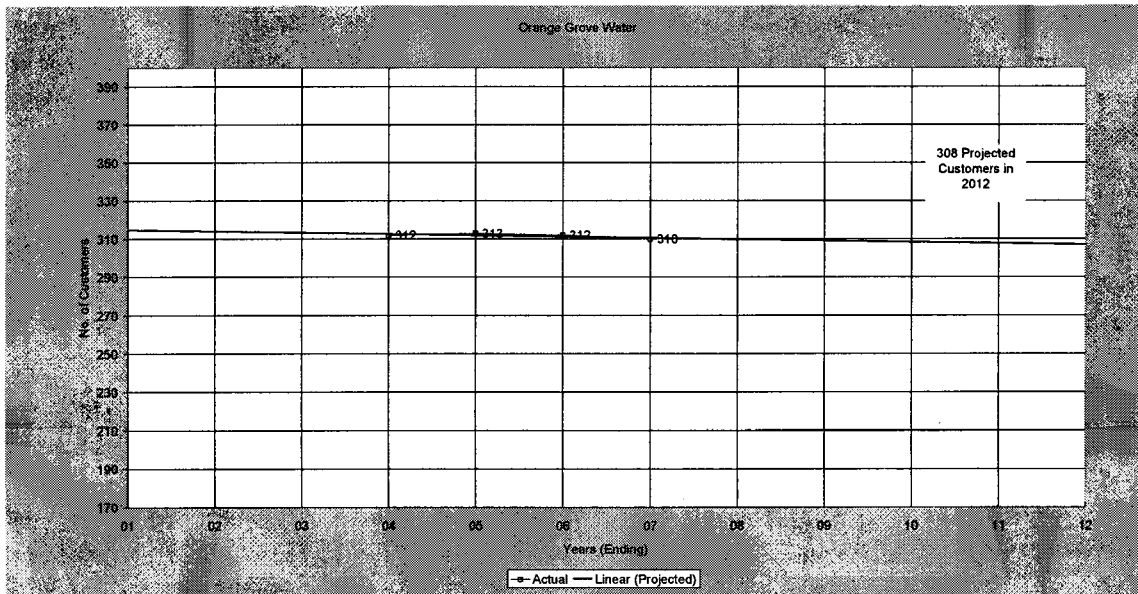


Figure 5. Growth Projection

## E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ") COMPLIANCE

### Compliance

ADEQ regulates the Orange Grove water system under ADEQ Public Water System I.D. #14-366. Based on a Compliance Status Report, dated November 6, 2008, the system has no major deficiencies and is delivering water that meets water quality standards required by 40 CFR 141/Arizona Administrative Code, Title 18, Chapter 4.

### Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections). Starting January 1, 2002, water



companies paid a fixed \$250 per year fee, plus an additional fee of \$2.57 per service connection, regardless of meter size for participation in MAP.

The Company reported its water testing expense at \$3,672 during the test year. Staff has reviewed the Company's testing expense and has recalculated the testing costs as reflected in Table A.

Table A. Water Testing Cost

Monitoring	Cost per test	Quantity of tests per 3 years	Annual Testing Cost	Certified Operator Annual Fee	Total Annual Cost
Total coliform (one test - monthly)	\$30	36	\$360	\$1,140	\$1,500
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$973 (Note 1)	na	\$973
Lead & Copper (five tests triennially)	\$75	5	\$125	na	\$125
Residual Disinfectant Monitoring (one test monthly)	\$50 (Note 2)	36	\$600	na	\$600
Disinfection Byproducts (testing done triennially)	\$375	1	\$125	\$25	\$150
<b>Total</b>			<b>\$2,183</b>	<b>\$1,165</b>	<b>\$3,348</b>

Notes: 1) ADEQ's MAP invoice for the 2008 Calendar Year was \$973.33.

2) No lab fee testing is done by certified operator.

Staff recommends an annual water testing expense of \$2,183 and certified operator expense of \$1,165 be used for purposes of this application.

#### **F. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE**

Orange Grove's service area is not located within any Active Management Area ("AMA"). ADWR has determined that Orange Grove is currently in compliance with departmental requirements governing water providers and/or community water systems.<sup>6</sup>

#### **G. ACC COMPLIANCE**

A check of the Commission's Compliance Section database showed that Orange Grove had no delinquent Commission compliance issues.<sup>7</sup>

#### **H. DEPRECIATION RATES**

For purposes of this rate application the Company used depreciation rates per National Association of Regulatory Utility Commissioners ("NARUC") plant category that were the same as the rates typically recommended by Staff. These rates are presented in Table B and it is recommended that the Company continue to use these depreciation rates by individual NARUC.

Table B. Depreciation Rate Table for Water Companies

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33

<sup>6</sup> Per ADWR Water Provider Compliance Status Report dated January 14, 2009.

<sup>7</sup> Per Compliance Section email dated September 8, 2008.

335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00

## I. OTHER ISSUES

### 1. Service Line and Meter Installation Charges

The Company has requested changes in its service line and meter installation charges. These charges are refundable advances and the Company requested charges fall within Staff's customary range of charges. The Company only proposed charges for a 5/8-inch meter. The Company did not propose charges for the larger meters because it did not believe it would ever have a request for a larger meter than 5/8-inch. Staff however recommends rates be listed for all meters. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff recommends that the charges listed under "Staff's Recommendation" in Table C be adopted.

Table C. Service Line and Meter Installation Charges

		Company Proposed			Staff's Recommendation		
Meter Size	Company Current Tariff	Service Line Charge	Meter Charge	Total Charge	Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$100	\$415	\$105	\$520	\$415	\$105	\$520
3/4-inch	\$120	na	na	na	\$415	\$205	\$620
1-inch	\$160	na	na	na	\$465	\$265	\$730
1-1/2-inch	\$300	na	na	na	\$520	\$475	\$995
2-inch Turbine	\$400	na	na	na	\$800	\$995	\$1,795
2-inch Comp	na	na	na	na	\$800	\$1,840	\$2,640
3-inch Turbine	na	na	na	na	\$1,015	\$1,620	\$2,635

3-inch Comp	na	na	na	na	\$1,135	\$2,495	\$3,630
4-inch Turbine	na	na	na	na	\$1,430	\$2,570	\$4,000
4-inch Comp	na	na	na	na	\$1,610	\$3,545	\$5,155
6-inch Turbine	na	na	na	na	\$2,150	\$4,925	\$7,075
6-inch Comp	na	na	na	na	\$2,270	\$6,820	\$9,090

## 2. Curtailment Tariff

On September 30, 2008, the Company filed a Curtailment Tariff based on the tariff template posted on the Commission's website.<sup>8</sup> Staff recommends that this tariff be approved. Staff further recommends that the Company file the tariff with Docket Control, as a compliance item in this docket, within 45 days after the effective date of the decision in this case.

## 3. Backflow Prevention Tariff

On September 30, 2008, the Company filed a Cross-Connection Tariff (or Backflow Prevention Tariff) based on the tariff template posted on the Commission's website.<sup>9</sup> Staff recommends that this tariff be approved. Staff further recommends that the Company file the tariff with Docket Control, as a compliance item in this docket, within 45 days after the effective date of the decision in this case.

## 4. Well No. 2 Registration

According to the Company, Well No. 2 has never been registered with ADWR. Staff recommends that the Company file the appropriate registration documents with ADWR. Staff further recommends that the Company file documentation with Docket Control, as a compliance item in this docket, demonstrating that Well No. 2 has been registered and an ADWR Well Registration Number assigned. This documentation shall be filed within 45 days after the effective date of the decision in this case.

## 5. Posting of Sign at Well Site on Valencia Avenue in Orange Grove Mobile Manor

During its site inspection Staff noted that a sign listing the Company's identification and contact information was not visible at the Well Site on Valencia. Staff recommends that a sign be posted at the Well Site that meets ADEQ requirements. Staff further recommends that the Company file documentation with Docket Control demonstrating compliance within 45 days after the effective date of the decision in this case.

<sup>8</sup> The Company filed its proposed tariff in the subject docket (Docket No. W-02237A-08-0455).

<sup>9</sup> The Company filed its proposed tariff in the subject docket (Docket No. W-02237A-08-0455).